ANNUITY WATCH USA

ANNUITY MYTHS & REALITIES

Common Questions And Answers

When it comes to annuity plans, we are the experts!

CATHY DEWITT DUNN & ANNUITY WATCH USA

The Annuity Experts

At Annuity Watch USA, we specialize in helping individuals and families understand various retirement income planning options that can help them create a more secure future. One great option is the Fixed Index Annuity, a high quality fixed income product that provides you income for life — income you can't outlive. A fixed index annuity also offers 100% principal protection, tax deferral, and the ability to lock in gains based on the positive performance of the stock market.

The reality is that fixed index annuities can offer many advantages. Unfortunately, there are lots of myths out there that cloud the message. We've put together this white paper to help clear up the misconceptions.

CALL US ANYTIME WITH YOUR QUESTIONS!
(972) 473-4700

MYTH. ANNUITIES ARE VERY COMPLICATED TO UNDERSTAND AND OWN.

REALITY. The concept of a fixed index annuity is very simple. In return for the purchase of an annuity contract, an insurance company offers to pay you (at some specified point in time) an income stream for as long as you live. Or, you can use a fixed index annuity as a wealth accumulation vehicle where your money grows tax-deferred. While you own your contract, you enjoy 100% principal protection plus the opportunity to participate in stock market index gains. But, as they say, the devil is in the details. An annuity contract itself can be very complex. There's a wealth of information available that can help you better understand your annuity purchase. To get you started, we've included a description of common annuity contract features as well as questions to ask when reviewing an annuity opportunity. And, we're only a phone call away to discuss any questions you may have.

MYTH. WHEN YOU DIE, THE INSURANCE COMPANY KEEPS ALL OF YOUR MONEY.

REALITY. Most of today's annuities, including fixed index annuities, provide death benefits. For annuities that offer an immediate income stream, if you pass on before the full contract value is paid out, your beneficiary will receive any remaining principal in your account. On deferred annuities, the death benefit includes any money left in the contract, plus any interest that has accrued prior to death. You also have the option of purchasing contract riders that increase the death benefit of your annuity.

MYTH. FIXED INDEX ANNUITIES DON'T PROVIDE ANY ADVANTAGES OVER OTHER FINANCIAL PRODUCTS.

REALITY. It is true that you can accomplish a wide variety of retirement planning objectives using other financial products. However, fixed index annuities provide a distinct combination of advantages including principal protection, tax-deferred compounding, and death benefits. Some features of annuities— such as providing predictable guaranteed lifetime income—are non-existent in other investment products.

MYTH. ANNUITIES ARE FOR MUCH OLDER PEOPLE OR EXCEPTIONALLY CONSERVATIVE INVESTORS.

REALITY. Fixed index annuities may be appropriate for individuals facing a variety of retirement planning scenarios. The lifetime income component is especially important to individuals in or near retirement. But, annunities can also answer some concerns of younger investors. Fixed index annuities have proven to be an excellent alternative to the bond market by providing gains linked to improvements in the stock market while eliminating losses.

MYTH. ANNUITIES HAVE A LOT OF HIDDEN FEES AND CHARGES.

REALITY. In most standard fixed index annuities, no direct fees are involved. The only fees that might be incurred are those that cover optional value-added riders guaranteeing a specific amount of income or providing an enhanced death benefit. A surrender charge may apply for cashing out an annuity early.

MYTH. SURRENDER CHARGES ONLY BENEFIT INSURANCE COMPANIES.

REALITY. Penalties for closing your annuity early allow annuity providers to take a longer-term approach to making your money work for you. A surrender charge discourages you from withdrawing before a specified term. It's important to understand what restrictions your contract stipulates for surrendering early. In many cases, contracts will allow you to withdraw up to 10% of your balance per year without penalty. In addition, you may be able to take a loan against your annuity without suffering any surrender penalties.

MYTH. THE RETURNS ON A FIXED INDEX ANNUITY ARE LOW.

REALITY. With a fixed index annuity, the returns are directly tied into an external index' performance, such as the S&P500. If the market does well, your annuity has the opportunity to do well. If the market is down, your principal is protected against any loss. The amount of interest credited to your annuity account is determined by the crediting method or methods you choose. You may change crediting methods each year on the anniversary of your contract. Additional details regarding crediting methods are available on our website.

MYTH. CREDITING METHODS ARE DESIGNED SOLELY TO INCREASE INSURERS' PROFITS.

REALITY. Insurance companies don't experience a windfall effect if the market or interest rate outperforms expectations. They purchase hedges to fund the index credits (interest) paid to you in the event of stock market gains. The cost of those hedges determines the limits that are set for each annuity.

MYTH. I DON'T NEED AN ANNUITY BECAUSE I HAVE A 401(K) OR IRA.

REALITY. 401(k)s and IRAs are wonderful retirement savings tools. However, they don't provide the opportunity to protect your principal while still achieving market linked returns with the ability to convert your savings into a guaranteed lifetime income stream. In addition, 401(k)s and IRAs have annual contribution limits. While some annuities may set internal limits for how much you can invest, the IRS does not limit the amount you can contribute to an annuity. This allows you to enjoy more tax-deferred savings power to help build your retirement nest egg.

"DOES AN ANNUITY MAKE SENSE FOR ME?"

I get asked this question several times a day. And, it's a subject I talk about in depth each week on my radio show, Safe Money Talk Radio.

The truth is: no annuity expert can answer this question until they know more about you, where you are in your retirement income planning, and what your income goals are during your retirement.

I INVITE YOU TO GIVE US A CALL OR SEND AN EMAIL TO DISCUSS THIS VERY IMPORTANT QUESTION!

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MYTH. FIXED INDEX ANNUITIES CAN'T KEEP UP WITH INFLATION.
REALITY. Whether you're retiring tomorrow or ten years from now, inflation can erode the purchasing power of a dollar… regardless of where that dollar is invested. Inflation fears may force people into risky investments that can gain value faster than the inflation rate. Fixed index annuities are low-risk retirement income solutions that provide an opportunity for allowing investors to benefit from stock market gains while shielding your money from market losses.

If you're still concerned with inflation, you may consider an inflation-indexed annuity. An inflation-indexed annuity reduces inflation risk and provides you with income for life. You can receive income on a monthly basis, and your monthly payment adjusts upward based on the annual inflation rate. An inflation-indexed annuity will increase your monthly payment each year based on a CPI increase during the prior year… but not decrease the payment if the CPI declines. A decrease in CPI will be used to offset any future annual increases.

MYTH. AN ANNUITY IS "RISK FREE" AND GUARANTEED SAFE.
REALITY. An annuity is backed by the full faith and credit of the insurance company that issues it. Most insurance companies also purchase "reinsurance" to provide further safety. In addition, each state offers additional protection up to a specified limit. When choosing an annuity, it's important to go with top rated carriers and deal with the experienced annuity professionals at Annuity Watch USA. You may find helpful links to Insurance Carrier

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